

HOUSING MARKET OUTLOOK

Winnipeg CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Single-detached starts to see increases in both 2010 and 2011

After a slower performance in 2009, builders will pour foundations for 1,700 single-detached homes in 2010 in the Winnipeg Census

Metropolitan Area (CMA), a 13 per cent increase over the previous year. In 2011, single starts will see another uptick to 1,750 units, a modest three per cent increase above 2010. Stronger economic conditions, low mortgage rates, and historically high migration will support single-detached construction over the next two years. This year will see the largest increase as production expands in response to lower inventory levels and fewer

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Figure 1



Source: CMHC, CMHC Forecast (f)

† The forecasts included in this document are based on information available as of April 23, 2010.

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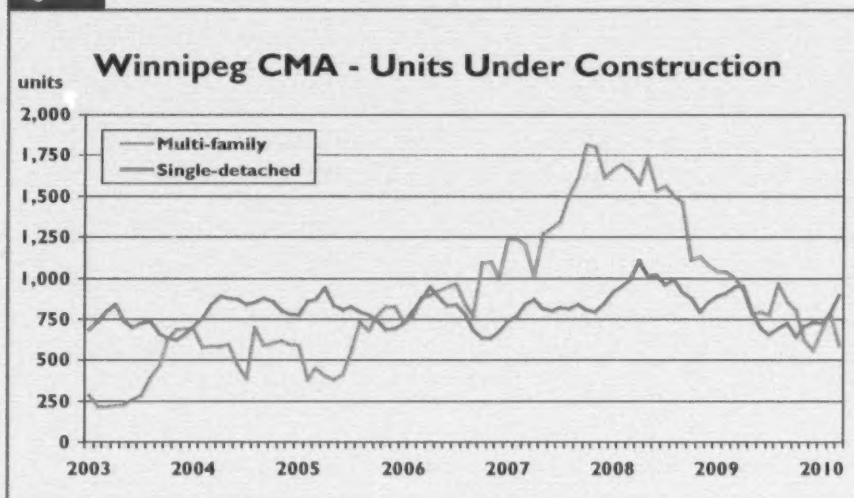
active listings in the competing resale market. Next year will see a more modest gain in starts, as higher mortgage rates and additional resale selection slow the increase in demand.

To the end of March, single-detached starts were 26 per cent higher than 2009. However, it is unlikely this pace of activity will continue through the balance of 2010. The first quarter of 2009 was the weakest of the year, as starts pulled back in response to the economic downturn and heightened inventories. Conditions improved during the remaining months of 2009, thus year-over-year comparisons will narrow moving forward. Meanwhile, concerns over rising mortgage rates and increasing house prices have likely pushed some demand forward to the early months of 2010. The recent rise in starts is also boosting supply levels and increases the risk of rising inventories.

The supply of single-detached homes, including complete and unabsorbed units and those under construction, had been in decline since April of 2009 but recently moved upward. Reduced starts throughout 2009 resulted in steady declines in units under construction, reaching a three-year low of 642 units in October. Given the rise in starts in recent months, the number of units under construction has climbed to 895 at the end of March, the highest total in nearly a year. Complete and unabsorbed units, meanwhile, have been falling since May 2009 when inventories nearly set a new record high, reaching 295 units. Since then, complete and unabsorbed singles have fallen to 133 units in March 2010, the lowest total in six years.

Considering a 12-month moving average absorption of approximately 140 units per month, the current supply is sufficient to last seven

Figure 2



Source: CMHC

months, on par with previous years. The duration of completed and unabsorbed units, however, has been falling since October 2009 and stands at less than one month, the lowest point since April 2006. Builders have already initiated more starts and are completing units currently under construction to replenish inventory. Once this occurs, a return to modestly rising inventories will slow the gain in production through 2011.

New House Price Index on the rise

The New House Price Index (NHPI) increased only 2.5 per cent in 2009, far below the double-digit increases of 2007 and 2008. Expect price pressures to intensify in 2010 and 2011, as both land and building prices rise. Thus far, Winnipeg's land component of the NHPI is recording the strongest gains, though the house-only component is also subject to increases due to its reliance on labour and materials. The expected increases of 4.0 per cent in both 2010 and 2011 are low by historical standards.

The average absorbed single-detached price is forecast to increase at a faster rate than the NHPI, but will be below the gains reported in 2007 and 2008. Unlike the NHPI, consumer demand for larger or smaller homes with more or less features influences the average price. Driven by compositional factors and rising prices, the average price increased 16 per cent in 2007 and 13 per cent in 2008. The average absorbed price ended 2009 at \$373,455, up 6.4 per cent from 2008.

The average absorbed price will continue to rise in 2010 and 2011, but at rates comparable to those seen prior to 2007. Buyers are facing rising mortgage rates, and thus may be unable to afford the additional features they would have purchased prior to the increases. Meanwhile, those looking to upgrade their existing homes will carry forward weaker equity gains compared to previous years. As a result, the upward shift to higher price ranges will continue but at a slower rate.

Multi-family production steps up in 2010

Following two successive reductions in 2008 and 2009, multi-family starts, consisting of semi-detached units, rows, and apartments, will rebound to 900 units in each of the next two years. These represent significant increases from the 528 multi starts in 2009, but are lower than the 1,000-plus units annually from 2006 to 2008. A lower supply of condominiums relative to demand will support the upswing in multiple starts, as will persistently low rental vacancies. Excluding the elevated years of 2006 to 2008, our forecasts of 900 units for 2010 and 2011 will be the highest annual production since 1988.

With starts up three-fold to the end of March, multi-family construction is already on pace to meet our forecast. So far, the gain can be attributed to apartment (specifically rental) starts, as semi-detached and row starts are relatively unchanged from the previous year.

Total multiple supply in decline

Total multiple supply has been in decline since May 2008. With 819 units in March 2010, the supply of multiples was at its lowest level for that time of year since 2005. Builders have noted this condition and have picked up production in recent months. Apartments have been the primary contributor to reduced supply, helping pave the way for the rebound in starts.

At 707 units at the end of March, the supply of apartments was 40 per cent lower than the previous year and the lowest total since February 2006. Units under construction were down by 46 per cent year-over-year in March, while inventories were down

by 22 per cent compared with the same time last year.

Rental apartments dominate units under construction

Rental apartments dominate units currently under construction, as this is where new multiple starts have been concentrated in the past 36 months. At 314 units in March, the number of rental apartments under construction was 56 per cent higher than the previous year. Some of these units target low income families and will be quickly absorbed upon completion. Private rental apartments should also be absorbed quickly due to steady demand from a buoyant economy, persistently low rental vacancies, and elevated net migration.

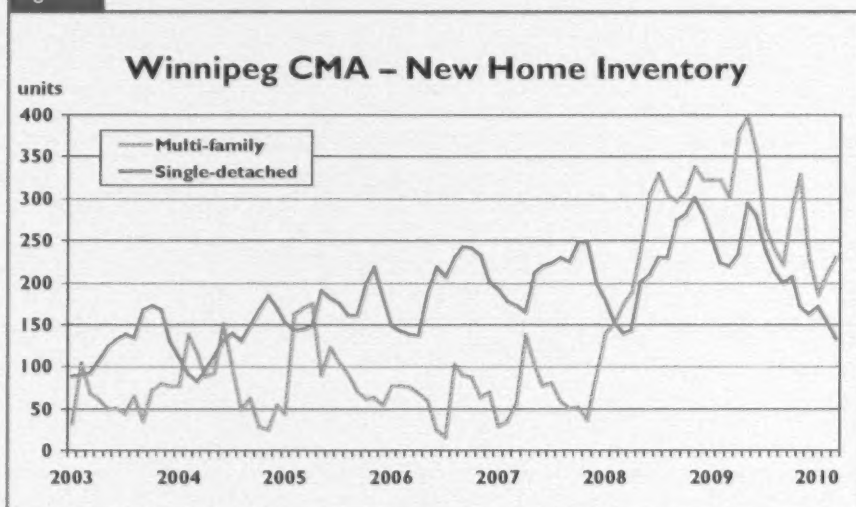
The balance of apartments under construction consists of condominiums. After steady production in 2007 and 2008 of about 600 units annually, there were only 27 condominium apartments started in 2009 due to weakening economic

conditions and rising inventories.

As a result of this pullback and subsequent completions, only 175 apartment condominiums were under construction at the end of March, down from 684 one year earlier. This sharp decline offers further support that starts will pick up in 2010 and 2011.

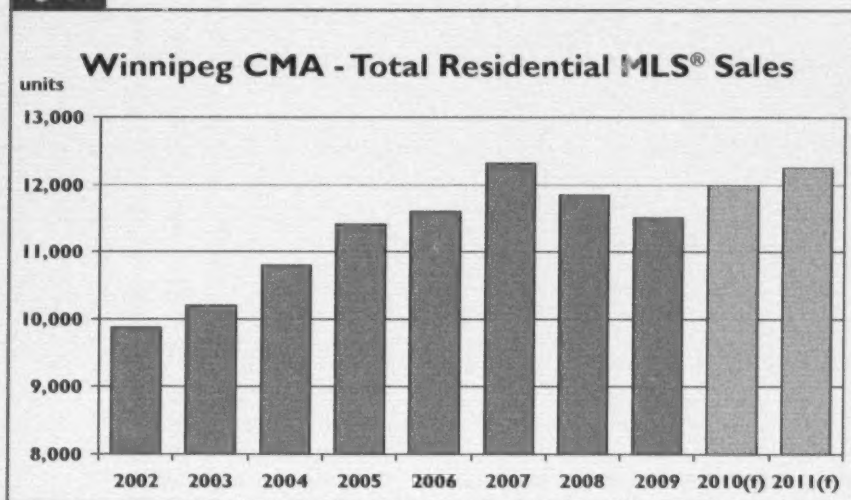
Given rising house prices, limited supply in the resale market, persistently low rental vacancies, and rising rents, demand for modestly priced apartment and row condominiums will be robust going forward. New condominium row housing is a relatively scarce housing form and has a history of being absorbed quickly. Row condominium projects comprise less than 80 units of supply, nearly all of which are under construction. Condominium row inventories consisted of only four units at the end of March 2010, down from 17 one year earlier. By comparison, apartment condominium inventories totalled 119 units, down from 131 in March 2009.

Figure 3



Source: CMHC

Figure 4



Source: CREA, CMHC Forecast (f)

RESALE HOME MARKET

Modest increase forecast for existing home sales in 2010 and 2011

Following modest reductions for two consecutive years, our forecast calls for existing house sales to rise 4.3 per cent in 2010 to 12,000 units. A further increase of 2.1 per cent to 12,250 sales will occur in 2011. Our forecast will represent the strongest existing home sales since 2007 when they peaked at 12,319 units.

A strong economy with modest job growth and elevated migration will support the rise in demand for existing housing, as will low mortgage rates early in the forecast period. Rising rents will also encourage rental households to move to homeownership. However, higher prices and mortgage rates will act to restrain the increase in sales moving forward, as will recent changes in mortgage qualifying conditions.

The pace of existing home sales has been elevated since the fall of 2009, with buyers electing to get into the market before mortgage rates go up. This heightened pace of sales will moderate through the latter half of 2010, as rising mortgage rates and house prices begin to hamper affordability. Nonetheless, the strong sales pace at the beginning of the

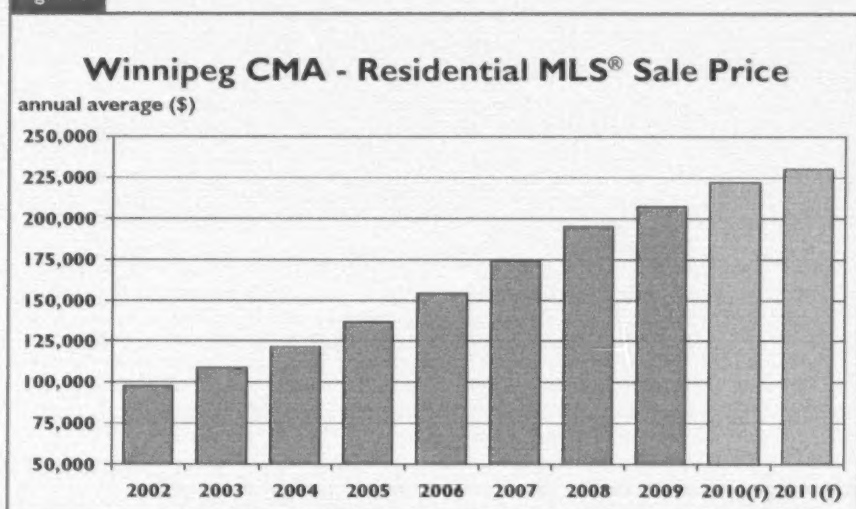
year will push 2010 activity above last year's levels.

Active listings set to rise

With the strong buying activity, the inventory of 1,200 active listings in March was 25 per cent lower than the previous year. Active listings have been trending downward since December 2008 but are showing signs that they will soon be increasing. Heightened buyer interest and price gains in recent months are leading more owners to put their homes on the market, with new listings in March up 12 per cent from a year earlier. A continued rise in new listings suggests that active listings will rise by the second half of 2010 and continue to trend upwards.

The expected gain in active listings combined with steady sales will result in a reduction to the sales-to-active listing ratio going forward. At 86 per cent in March, the sales-to-active listings ratio was 31 percentage points higher than the previous year, supporting a strong pace of price growth and swift sales

Figure 5



Source: CREA, CMHC Forecast (f)

for well-priced homes in desirable neighbourhoods. With higher listings and an expected return to balanced conditions through 2011, the rate of price growth in Winnipeg's resale market will moderate compared to historical standards. Rising mortgage rates will also dampen overall house price growth, as some buyers turn to smaller and less expensive homes.

Price gains will be moderate in 2010 and 2011

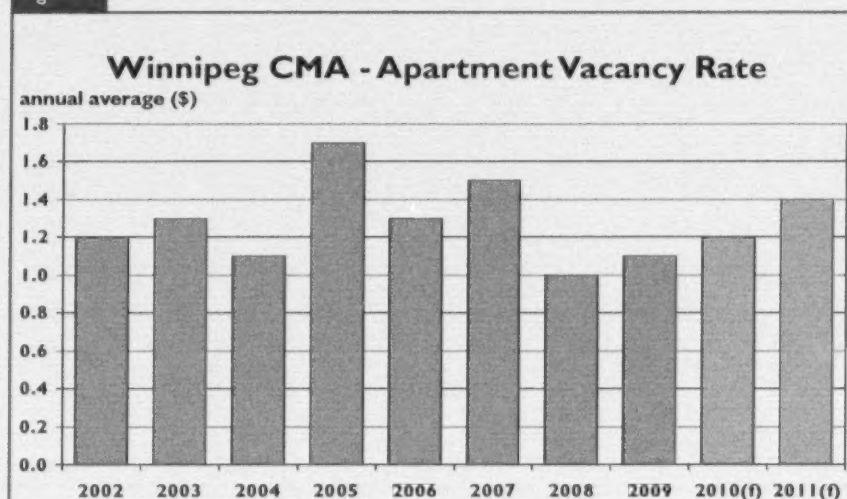
Following six successive years of double-digit price growth, Winnipeg's average resale price advanced 5.3 per cent in 2009. The average resale price will see a gain of 7.1 per cent in 2010, reaching \$222,000. A further increase of 3.6 per cent will bring the average to \$230,000 in 2011. Including 2009, these are the lowest average price increases since 2002 when there was a four per cent increase.

Monthly price gains peaked in the fall of 2009 and have since moderated. Currently, the seasonally adjusted average price is rising at less than one per cent monthly. Much of these increases in average price are compositional as buyers have been moving to higher price points. The ability of buyers to reach these higher price points moving forward will weaken as mortgage rates increase. This will contribute to slower price growth.

RENTAL MARKET

Winnipeg recorded an apartment vacancy rate of 1.1 per cent in the October 2009 CMHC rental market survey, up slightly from the 1.0 per cent recorded in 2008. Despite modest increases, rental apartment vacancies will remain low through

Figure 6



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

the forecast period. Our forecast calls for a vacancy rate of 1.2 per cent in October 2010 followed by a slight increase to 1.4 per cent in 2011. Net migration and rising mortgage rates will keep vacancies low, helping to counter the effects of rental households moving to homeownership and additions to the private rental housing stock.

The rental housing stock has seen more than 3,100 semi-detached, row and apartment units added in the last six years. A number of these projects targeted seniors or low-income groups and thus do not represent additions to the private rental stock. Nonetheless, these projects may divert demand away from the private sector and increase average vacancy rates. The same holds true for many of the rental apartments currently under construction.

The Winnipeg rental stock is also changing due to demolitions, conversions to condominium, and conversion to other than private rental housing (seniors). Although demolition is a clear removal from the

rental housing stock, conversions may not have a significant impact on rental supply. For example, conversion to condominium may result in a purchase by an investor who proceeds to return the unit to rental housing.

Insert Figure 6: Apartment Vacancy Rate

Rental rates for two-bedroom apartments grow to \$860 by 2011

The Province of Manitoba has legislated guidelines for rent increases. While the recent guidelines specify a maximum increase of one per cent, there are exceptions. New rental buildings are exempt for up to 20 years, while properties renting for \$1,105 or more are also exempt. During the exemption period, landlords in these units may increase their rents at any rate the market will support. Landlords may also apply for an above guideline increase for a variety of reasons, such as a recent renovation. Since many do so with success, a portion of the rental universe experiences rent increases

above the mandated guidelines. At the same time, newly completed units will come on the market at above average rent levels, moving the average upward.

Considering all factors of demand and supply, our forecast calls for the two-bedroom average rent to increase to \$835 in the October 2010 survey and to \$860 in the October 2011 survey.

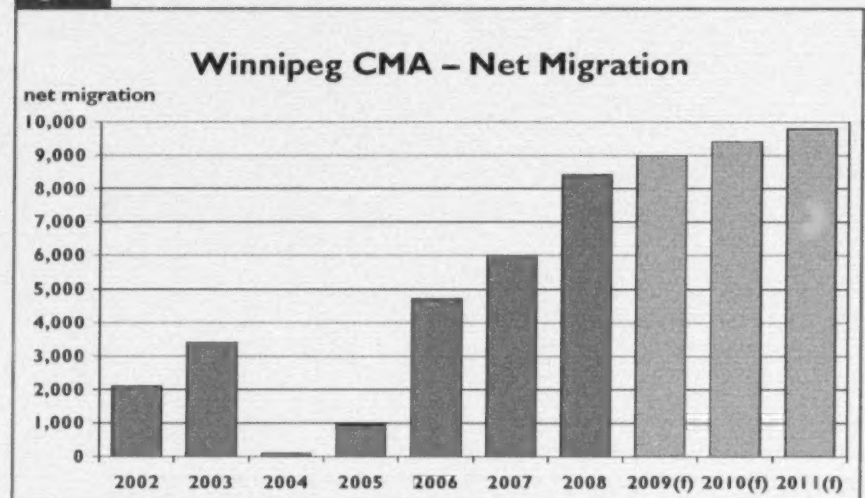
ECONOMIC OUTLOOK

Economic conditions improving but labour market slow to respond

Following the challenging environment in 2009, economic conditions are looking more positive this year and beyond. Infrastructure spending and the construction of major projects remain bright spots for the local economy. While the new Winnipeg Airport is scheduled to complete in 2010, a number of other major developments will help pick up the slack. These include the Seasons of Tuxedo shopping centre, the Human Rights Museum, and the recently announced stadium on the University of Manitoba campus. A multitude of transportation improvements within the city will further augment construction.

Also key to Winnipeg's economic recovery will be new home construction and personal spending. As indicated earlier, total housing starts to the end of March are up 72 per cent from 2009. Early indications for retail sales also point to a healthy gain this year, following the modest decline in consumption in 2009. The manufacturing sector, meanwhile, is looking to rebound following a poor performance last year, thanks, in part,

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

to the multitude of contracts in the aerospace sector. Commodity prices are also staging a recovery, creating an environment to further drive investment and job opportunities.

Despite the many sources of optimism, a number of factors may slow the pace of economic recovery. If persistent throughout the forecast period, a Canadian dollar near parity with the U.S. dollar could slow the rebound, especially within the export-oriented manufacturing sector. Winnipeg's labour market has yet to show signs of improvement after the sluggish performance last year. In 2009, payrolls declined by 300 positions in the Winnipeg CMA, a considerable departure from 2008 when 5,400 new jobs were created. According to Statistics Canada, the Winnipeg CMA has not posted a gain in monthly employment since August 2009. Some of this is due to seasonal effects and employment should increase in the coming months.

A closer examination of the data suggests that Winnipeg's labour market may be slower to improve than the overall figures indicate.

Critical for homeownership demand is full-time job growth, as it is an important prerequisite for buying a home. In the first quarter of 2010, full-time employment totalled 306,800 positions, 10,400 fewer than the previous year. Part-time jobs, meanwhile, have expanded by 10,800 positions in the first three months of 2010, helping maintain a relatively low unemployment rate. In the first quarter of 2010, Winnipeg's unemployment rate averaged 5.7 per cent, up from 5.1 per cent in the previous year but considerably lower than the national average of 8.7 per cent.

Despite the weakness in employment to-date, CMHC expects Winnipeg payrolls to expand by 0.6 per cent in 2010 and a further 1.3 per cent next year. The multitude of capital projects should contribute to the employment expansion in the coming months, as will the overall economic recovery. Much of the growth will be in full-time positions, which will support gains in average weekly earnings. Employers will have access to an expanded pool of labour, thanks to record levels of

net migration and modestly higher unemployment rates. Winnipeg's unemployment rate will average 5.5 per cent over the next few years and will continue to be among the lowest in Canada.

Net migration to set records through 2011

Intuitively, one would expect the recent weakness in employment to have a negative impact on current and future housing demand. However, this has not occurred. To compensate, a record level of net migration has been a prominent factor supporting homeownership and rental demand.

Manitoba continues to reap the benefits of the Provincial Nominee Program, a relatively low unemployment rate, and lower housing costs compared to other major markets. These factors helped

push annual migration in Manitoba to a record 11,029 people in 2009, 48 per cent more than the previous year. We expect further records to be set in the province in 2010 and 2011. With the majority of provincial migrants choosing Winnipeg as their preferred destination, the city will enjoy record net migration, averaging more than 9,500 people annually through 2011.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Winnipeg CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	12,319	11,854	11,509	12,000	4.3	12,250	2.1
MLS® New Listings	14,490	16,050	15,478	17,000	9.8	17,500	2.9
MLS® Average Price (\$)	174,203	196,940	207,341	222,000	7.1	230,000	3.6
New Home Market							
Starts:							
Single-Detached	1,870	1,930	1,505	1,700	13.0	1,750	2.9
Multiples	1,501	1,079	528	900	70.5	900	0.0
Starts - Total	3,371	3,009	2,033	2,600	27.9	2,650	1.9
Average Price (\$):							
Single-Detached	306,080	342,885	369,320	395,000	7.0	415,000	5.1
Median Price (\$):							
Single-Detached	286,285	311,443	336,960	355,000	5.4	371,000	4.5
New Housing Price Index (% chg.)	11.8	10.2	2.5	4.0	-	4.0	-
Rental Market							
October Vacancy Rate (%)	1.5	1.0	1.1	1.2	-	1.4	-
Two-bedroom Average Rent (October) (\$)	740	769	809	835	-	860	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	390,500	395,900	395,600	398,000	-	403,100	-
Employment Growth (%)	2.2	1.4	-0.1	0.6	-	1.3	-
Unemployment rate (%)	4.7	4.3	5.4	5.6	-	5.4	-
Net Migration ⁽¹⁾	6,018	8,414	9,000	9,400	4.4	9,800	4.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2009 migration data is forecasted

The forecasts included in this document are based on information available as of April 23, 2010.

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